



Subject: 2021 Rate Budgets

To: Committee of the Whole - Budget

From: Corporate Services Department

Report Number: 2021-80

Meeting Date: March 11, 2021

Recommendation:

That Corporate Services Department Report 2021-80 be received; and

That the 2021 Rate Budgets as recommended in this report be approved.

Purpose:

The purpose of this report is to present the proposed 2021 Rate Budgets to Council for approval.

A separate report has been prepared by way of Council report titled, 2021 Rate Setting, Report 2021-81, to establish the water, waste water and storm sewer rates to be charged.

Background:

The 2021 Rate Budgets are presented on an adjusted timeline from that approved in Report 2020-97. In the summer of 2021 Staff will outline a path to have the Rate Budgets approved on a similar timeline to the Levy budget (on or before December 13).

The 2021 Rate Budgets were developed through a collaborative process. Similar to the Levy Budget, Staff based their recommendations after considering:

- Organization capacity to fulfill the direction this budget provides:
 - Staff recognizing the COVID-19 pandemic is on-going
 - Staff changes in the Engineering and Operations division
- Organization financial flexibility and ratepayer affordability recognizing water and wastewater rates are higher but when coupled with property taxes still

- equals a comparable to slightly more affordable total cost than other municipalities. Affordable is discussed in Report 2021-84, Rate Setting.
- A desire to continuously improve:
 - Introduce a new account structure (blue print) to track future success
 - Establish a pathway to identify quick wins and plot a sustainable path forward with respect to water and wastewater improvements.

The budget document should be read in conjunction with the 2021 Capital and Related Project Budget (Report 2020-125) approved by Council at the September 28, 2020 Council meeting and the budget presentation presented to the Committee of the Whole on September 17, 2020.

Financial Services acknowledges that the format of the 2021 Rate Budgets are very different than previous years. Staff took a bottom up approach, including adjusting the account structure to facilitate future triennial financial reporting. Staff did not use the prior year budget plus inflation approach. The hope is Council will find the new format as a continued movement towards increasing accountability and transparency. Financial Services would like to thank the Director and Staff of the Public Works department that worked hand in hand in the development of this budget.

Discussion:

Financial Services highlights the budget is a plan to allocate resources in advance for the maximum benefit of City residents and stakeholders. It is a method to authorize revenue and expense authority. In preparing the 2021 budget, certain assumptions and estimates are necessary. They are based on information available to staff at the time. Actual results will vary although as regulated through the *Municipal Act*, a balanced budget is required.

Rate Budget Impact

Water and Waste Water

If approved as presented, the 2021 water and waste water combined budget increase would be 2.98% (represented by a 8.5% reduction in the water budget offset by a 12.9% increase in the wastewater budget).

Driving the water budget reduction is an improvement in the water billing to purchased ratio from 54.3% in 2018 to approximately 64% in 2020. Directionally this figure should be closer to 85% suggesting the City has made progress but there is more work to be done.

The increase in the wastewater budget is an acknowledgement that a refocus on wastewater is required. In 2020 payments to the Niagara Region to treat the waste water were approximately 86% of total City revenue. Directionally this percentage

should be closer to 50% suggesting the City has significant inflow and infiltration work to be done. City Staff thank Barbara A. Robinson, M.A.Sc., P.Eng., President and Founder, Norton Engineering Inc. for the educational presentation to the Budget Review Committee of the Whole on Inflow and Infiltration (“I&I”) in Sanitary Sewers on February 17, 2021.

Storm Sewer

If approved as presented, the 2021 Storm Sewer budget increase would be 10%. The most significant cost in this budget is the Nickel Storm Sewer project with annual borrowing costs representing approximately \$536 thousand dollars or 63% of the total budget.

Budget Summary

This budget was developed recognizing City rate services have never stopped during the pandemic. Recognizing the ongoing COVID-19 pandemic, Staff have developed budgets that maintain current service levels while providing funding to develop a plan and act as quickly as possible to work towards a more sustainable rate budget environment.

Recent organizational changes have provided for a renewed analysis of City rate services. The City has had an opportunity to discuss with Senior Staff at the Niagara Region and appreciate their insight and cooperation as we work towards a more sustainable rate budget environment for the City.

The 2021 Capital and Related Project Budget approved funding to develop a plan and implement waste water flow monitoring. Staff are working on that plan and related initiative at the time of writing this report. Albert Einstein famously said, “If I had an hour to save the world, I’d spend 55 minutes defining the problem and five minutes finding the solution.” Staff understand residents and local stakeholders would like to move fast to improve the water and wastewater rate environment and investigative works and planning are currently underway to implement those improvements.

To ensure Council, residents and local stakeholders remain informed Staff commit to including an update on water and waste water planning progress and opportunities in the triannual financial reporting scheduled to start for the period ending April 30, 2021 this year. The first report would be the first Council meeting in June of 2021.

Some of the salient highlights and changes in the 2021 Rate budgets are as follows:

Water and Waste Water

- Includes a low income seniors grant for individual on guaranteed income supplement. The budget for this grant is \$100 thousand. Staff identify at the time of writing this report we do not know how many residents might apply. Based on the analysis and recommendation in Report 2021-84 Staff estimate this would fund approximately 658 individual which would make up 11.7% of the City’s

billing population. As identified budgets are estimates and if there is a budget surplus/deficit as a result of this budget line Staff will adjust when proposing the 2022 budget.

- Includes funding for communications to help explain how the water and waste water systems work and what is being done to improve the systems. While much of this communication is yet to be developed at the time of writing this report, an example of one piece of communication is attached as Appendix H – Water and Wastewater Communication. The budget for this work is \$20 thousand.
- Includes monthly billing with a goal for a go live date of October 1, 2021. The cost of moving to monthly billing is \$40 thousand.
- Includes a one-time \$25 incentive to move to the current equal billing model the City currently offers. The budget plans for and Staff recommend anyone already on the equal billing system to receive the one-time incentive. The cost of this incentive is \$40 thousand.
- The water and waste water combined capital and capital reserve funding amount is recommended to increased by \$103 thousand year over year. A report completed by PSD Asset Management in 2019 identified the replacement value of our water and wastewater linear assets is \$109.7 million. Recognizing this budget identifies approximately \$1.5 million in capital and related capital reserve funding it would take approximately 73 years to replace the current linear assets within the City at current value dollars (i.e. before accounting for construction price inflation and further deterioration of the pipes).
- Includes one additional Staff member in the role of Manager. The City has historically not dedicated a senior level Staff person to the Water and Wastewater file. Recognizing the Water and Waste Water budget is just over half the City Levy budget, the embedded complexity in operating the system and the impact rates are having on residents and stakeholders in the City, Staff identify this position is sorely needed.
- Supporting and investing in human capital at the City – recognizing that our people are our most important asset, as was mentioned in the Strategic Plan presentation on October 26, 2020. A formal training budget has been implemented across departments amounting to approximately 2.5% of personnel costs.
- The commitment to continuous learning extends to the youth of the City. This budget includes student that help the City meet seasonal demands while providing students with work experience to support them in their future development. Specifically, these students will be reviewing CCTV videos, analysing areas for repairs and taking inventory on wastewater assets to gather data for strategic replacements.

Storm Sewer

- The Storm Sewer budget proposed is primarily a maintenance budget at the current time. As noted 64% of the budget has been allocated to the borrowing costs of the Nickel Storm Sewer.
- The capital budget available for work is \$24 thousand with an additional \$42 thousand being allocated to reserves. The reserve balance at the end of fiscal 2020 is projected at \$470 thousand at the time of writing this report. Staff identify all year end accounting entries have not been recorded at the time of writing this report and this number is subject to change.

Readers of this report will identify consolidated 2020 and prior year comparatives figures in the attached appendices. Highlights include the following:

Water and Waste Water

- The proportion of the water and waste water budgets going to the Niagara Region to purchase water and treat the waste water was 59.6% in 2017, 65.6% based on the 2020 year end forecast and 61% should the 2021 budgets be approved.
- The proposed 2021 combined water and waste water capital and capital reserve transfers are approximately \$50 thousand less than in 2017, even after the year over year increase of \$103 thousand noted above. Highlighted another way in 2017 the City budgeted for 14.5% of the combined water and waste water bill to be allocated to capital and capital reserve transfers. In the proposed 2021 budget the capital funding is proposed to represent 12.8% of the total budget.
- Since 2017 the City has run anywhere between 27% and 43% underbudget on personal expenses as a result of redeploying water and wastewater staff to other projects including transportation and ditching and general vacancies that occur from time to time. This 2021 Rate Budget has split the personal expense between water and wastewater. Engineering and Operations along with Human Resources are going to be reviewing capacity and related need within the various Engineering and Operation departments. While Staff view the City as “one Team” and from time to time sharing between departments is required and supported, the redeployment of water and waste water staff is impacting the capacity to complete water and wastewater projects.
- Due to staff turnover and COVID-19 priorities, the 2020 capital budgets were underspent by \$337 thousand (Water) and \$546 thousand (Waste Water). Notably this represented 100% of the waste water capital budget. These funds are recommended to roll forward to fund capital work to be identified through the water and waste water planning currently underway by Engineering and Operations.
- Staff identify there are reserve funds transfers each year to balance the rate budgets out. The reserve balances at the end of fiscal 2020 are projected at approximately \$700 thousand for water and essentially \$NIL for wastewater at

the time of writing this report. Staff identify all year end accounting entries have not been recorded at the time of writing this report and these number are subject to change.

Storm Sewer

- The storm sewer fee was new in 2019 and budget to actual review since then has identified a need to adjust certain budget lines to “right” size the budget. Appendix C – 2021 Storm Sewer Budget identifies the figures accordingly.

The following table summarizes the 2021 Rate Budget (combined operating and capital):

Water and Waste Water

	2020	2020	2021	\$	%
	Forecast	Budget	Budget	Y/Y Budget Change	
Combined Water and Waste Water					
Penalties and other fees	58,102	69,100	72,998	3,898	5.64%
Variable	3,916,395	5,159,839	4,336,213	- 823,626	-15.96%
Fixed	6,170,930	5,939,314	7,091,895	1,152,581	19.41%
Total Revenue	10,145,427	11,168,253	11,501,106	332,853	2.98%
Niagara Region	6,655,617	6,974,499	7,017,840	43,341	0.62%
Personal costs	649,699	1,144,524	1,122,700	- 21,824	-1.91%
Operations	1,599,271	1,327,081	1,524,310	197,229	14.86%
Capital^	171,261	1,054,792	600,000	- 454,792	-43.12%
Capital Pay-as-you-go (Carryforward)^	883,531	-	-	-	0.00%
Borrowing costs	362,242	364,299	364,300	1	0.00%
Reserve transfers	- 176,194	303,058	871,956	568,898	187.72%
Total Expenses	10,145,427	11,168,253	11,501,106	332,853	2.98%
Surplus / (Deficit)	-	-	-	-	
Niagara Region %	65.6%	62.4%	61.0%		
Capital & Reserves %	0.0%	12.2%	12.8%		
	65.6%	74.6%	73.8%		

The main driver of the water and wastewater budgets are flows. The budget utilizes the Niagara Region’s three year rolling average calculations but adjusted water purchases downward to reflect improvements to the system in 2018. The rational for keeping the three year moving average for wastewater despite Niagara Region billings being less then budgeted in 2020 was weather; given there was no change in the wastewater system in 2020. Staff note precipitation in 2020 was 12% less then 2019, 47% less then 2018 and 8% less then 2017 which helped reduce infiltration in 2020 and bring actual

Niagara Region billings in less than budget. Appendix I – Water and Wastewater Usage and Billings provides 5 years of flow information.

While this report already identifies budgets are estimates Staff highlights billing and the Niagara Region charges are highly susceptible to variation. In the event there is a shortfall the reserve transfer intended for future capital work is utilized to balance the budget.

The City's employee group works every day to support the residents and stakeholders of the City. The dedicated full-time equivalent (FTE) is 12.31 and head count is 15. Included in these numbers are 4 student positions.

Appendix A – Water and Appendix B – Waste Water provides a detailed listing of operating expenses.

The capital and reserve transfers which are intended for capital purposes have on a combined basis increase by \$116 thousand. Even after this increase which is being incorporated in the aggregate budget increase of 2.98% the percentage of the budget dedicated to capital is only 12.8% which as noted above is down from 14.5% in 2017.

^ The capital budget was approved at the November 23, 2020 Council meeting through Report 2020-125.

Note: The variable and fixed figures above work on the assumption no change is made to the historical budget relationship from 2020. Should Council approve a change to the variable and fixed billing relationship in Report 2021-84 – Rates Setting, where a potential alternative is illustrated, the total revenue will remain the same but the ratio of variable and fixed would change. This change will adjust the total value on the individual variable and fixed budget lines but the aggregate budgeted revenue will stay the same.

Storm Sewer

	2019	2019	2020	2020	2021	\$	%
	Actual	Budget	Forecast	Budget	Budget	Y/Y Budget Change	
Installation Service Fees	1,112	5,000	- 276	5,000	-	- 5,000	-100.00%
Rate Fees	730,566	740,800	777,016	770,279	854,720	84,441	10.96%
Total Revenue	731,678	745,800	776,740	775,279	854,720	79,441	10.25%
			-	-	-		
Operations	265,847	220,350	278,264	248,181	252,870	4,689	1.89%
Capital	-	-	39,998	-	23,724	23,724	-
Borrowing Costs	299,819	299,819	308,186	299,819	535,819	236,000	78.71%
Reserve Transfers	166,012	225,631	150,292	227,279	42,307	- 184,972	-81.39%
Total Expenses	731,678	745,800	776,740	775,279	854,720	79,441	10.25%
Surplus / (Deficit)	-	-	-	-	-	-	

The capital budget was approved at the November 23, 2020 Council meeting through Report 2020-125.

Water and Waste Water, Including Storm Sewer Past Projects

Over the past number of years, a multitude of projects have been completed by Public Works staff pertaining to the different systems. These projects include:

- A full CCTVing and documenting of the main sanitary system
- Reconstruction of Janet St.
- Reconstruction of Carter St.
- Grouting of manholes
- Nickel area storm sewer installation with sump pump and roof leader disconnect
- Application for Combined Sewer Overflow funds from Niagara Region
- Bulk Water station purchase
- Fire service water meters in industrial facilities
- All new water meters for residential homes connected to the water system
- Lakeshore Rd. watermain project
- Elm/Prosperity/Rosedale watermain replacement
- Lowering of water services to reduce frozen pipes

New Budget Document

Corporate Services hopes that Council finds this new budget document helpful in assessing the budget. As denoted in Report 202-168, 2021 Levy Budget Corporate Services has been making a number of changes to the account structure and budget development process. Corporate Services sees this as an initial step in a continuous improvement process. Council input and recommendations to the budget process are appreciated.

Looking forward

As many wise Councillors have said several times before, “everyday is budget day”. Financial Services anticipates this new budget layout may provide the opportunity for new questions and direction from Council. Financial Services will identify that continuous improvements is a process. Looking forward to 2021, Staff identify the following projects that will help determine the financial outcomes of the City going into the 2022 budget process:

- Complete the City’s strategic plan and develop tactical plans for each department
- Review the organization structure
- Establish a cost allocation model consistent with the Provincial Financial Information Return (FIR) guidelines to approximate the full cost accounting for programs
- Review cost allocations between the Levy and Rate budgets
- Address the recommendations from the Service Delivery Review
- Establish Key Performance Indicators (KPIs) and related benchmarks, where applicable, for departments and related costs driven by shared service levels

- Complete the Infrastructure Needs Assessment to support future capital and related project budgets
 - Upon completion of the infrastructure needs work develop a road map and discuss with other levels of government the possibility of support for improving the efficiency of the system
 - Enhancing capital planning
 - Review the purchasing by-law, including delegated processes within the City
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Internal Consultations:

This budget is a joint submission of Corporate Services and Public Works.

Financial Implications:

Financial Services identifies the proposed 2021 Rate Budgets are a staff recommendation which Council can adjust, if required.

Conclusion:

That the 2021 Rate Budgets as recommended in this report be approved.

In making this recommendation Staff acknowledge these budgets continue to be underfunded in terms of capital investments. Once Staff have completed the infrastructure needs assessment further discussion on capital funding, which may include grant applications, if available, will be required.

Appendices: (If none delete section)

- a. 2021 Water Budget
- b. 2021 Waste Water Budget
- c. 2021 Storm Sewer Budget
- d. Summary - Five Year Combined Water and Waste Water Budgets
- e. Summary - Five Year Water Budget
- f. Summary - Five Year Waste Water Budget
- g. Summary - Three Year Storm Sewer Budget
- h. Water and Waste Water Communication
- i. Water and Wastewater Usage and Billing Metrics

Respectfully submitted,

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Report Approval:

All reports reviewed and approved by the Department Director and also the City Treasurer when relevant. Final approval is by the Chief Administrative Officer.